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TRUDEAU'S PIPELINE APPROVALS COMPLICATE MATH OF CUTTING CANADA'S GHG EMISSIONS

Emissions reductions and pipeline expansions. Can we have both?Prime Minister Justin Trudeau announced the approval this week of two major oil pipeline expansions, insisting all the while that the new fossil fuel infrastructure fits within his Liberal government's plan to reduce greenhouse gas emissions.Environmental advocates immediately called the approvals a betrayal, but a series of government climate policy moves this year suggest Canada's emissions should come down — although whether it will be enough to meet the country's 2030 climate commitment is another matter.Trudeau sits down next week with provincial and territorial premiers to complete a pan-Canadian climate strategy that's supposed to put the country on a downward emissions trajectory to its 2030 Paris emissions target. The government has promised the United Nations that Canada will cut emissions 30 per cent below 2005 levels by 2030.Canada's greenhouse gases have been slowly trending upward for half a decade after a recession-induced dip, and every new fossil fuel project approved adds fuel for critics who say the country is once again going to blow past its international climate promises.The prime minister insists otherwise.

"Today's announcement is part of our plan to reduce greenhouse gas emissions," Trudeau said at one point during Tuesday's news conference — prompting a guffaw from someone in the assembled press throng — before he completed the sentence by alluding to Alberta's 100-million-tonne cap on oilsands emissions.As Environment Minister Catherine McKenna explained it, Alberta's 100 megatonnes of emissions are "built into our climate plan."The Liberals have been busy for months announcing federal climate polices, many with significant GHG reduction numbers attached.A Canada-U.S. commitment to reduce emissions of methane — a powerful greenhouse gas — are estimated to cut carbon dioxide equivalents by 18-20 million tonnes by 2030.

The phase-out of coal-fired electricity could net 15 million tonnes of reductions, a proposed low-carbon fuel standard has been pencilled in for an ambitious 30 million tonnes, and newly posted regulations for hydrofluorocarbons — another powerful GHG — should cut eight million tonnes of CO2 equivalent yearly by 2030.Environment Canada was unable to provide an estimate Wednesday of carbon reductions from the national floor price announced by Trudeau in October, but the federal-provincial Working Group on Carbon Pricing Mechanisms — whose report was quietly posted last Friday — suggests they could be significant.The working group examined three scenarios that cut emissions between 38 million tonnes and 95 million tonnes a year by 2030. None of their scenarios line up directly with the plan announced by the prime minister, but the Liberal plan appears to fall closer to the high end in terms of emissions cuts.

Taken together, a handful of federal measures could conservatively account for well in excess of 100 million fewer tonnes of GHGs a year by 2030.Set against that are the Liberal government's approvals of the Pacific Northwest liquefied natural gas project, with a cap of 4.2 million tonnes of emissions per year, and this week's two pipeline approvals. The environmental assessments for Kinder Morgan's Trans Mountain pipeline expansion in B.C. and for Enbridge's Line 3 expansion suggest emissions of between 23 and 28 million tonnes.But those numbers are inflated because all the oil in the expanded pipelines won't be incremental, new production. Much of it may be existing oil-by-rail shifting to a cheaper transportation route."You can't just say oilsands production is going to increase by the capacity of the pipeline, because it's going to shift around," Nic Rivers, the Canada research chair in climate and energy policy at the University of Ottawa, said in an interview.He calculates additional GHGs from Kinder Morgan at about 10 million tonnes a year, with Line 3 significantly less.The government, said Rivers, is "getting over 100 million tonnes a year from the kinds of policies they're promising. That's an order of magnitude bigger than the expected greenhouse gas increase from the pipelines' approval."That hasn't stopped environmental groups from asserting the pipelines will steamroll Canada's climate ambitions.The advocacy group 350. org issued a release Tuesday stating that Trudeau "may as well have said that Canada is pulling out of the Paris climate agreement."Environmental Defence was a little more restrained, stating the pipeline approvals "create herculean challenges for Canada" in meeting its Paris goal.

The federal government itself reported earlier this month that Canadians may not yet understand the "magnitude of the challenge."In an interview, Ian Bruce of the David Suzuki Foundation cited two recent studies that found getting Canada to a low-carbon economy is going to be a long slog.The Trottier Energy Futures project and the Deep Decarbonization Pathways Project both laid out scenarios that put Canada on a steep downward trajectory, but still fall somewhat short using existing technologies.

"If we did expand heavy oil pipelines, it puts such a tremendous burden on other sectors to reduce emissions that it becomes unfeasible," said Bruce.It is incumbent on the first ministers next week to show otherwise, said Erin Flanagan of the Pembina Institute.

She hopes the prime minister and premiers clear the air next Friday after their climate meeting by providing a detailed accounting of policy measures and GHG reductions en route to Canada's 2030 target.

ENVIRONMENTALISTS STILL TARGETED BY REVENUE CANADA

Next month marks five years that Environmental Defence has been under audit for its political activities.A small environmental group opposed to Liberal pipeline policies is still under threat by the Canada Revenue Agency – almost five years after getting into trouble with the taxman for opposing Conservative pipeline policies.The tax agency has notified Environmental Defence Canada Inc. in writing that it plans to revoke its charitable status because the group is too political — a contravention of current rules for charities.So far the Toronto charity's appeal of that decision has not been successful, even after spending up to $500,000 in legal and other fees to deal with a political-activity audit that begin in early 2012."They haven't budged in any way," said executive director Tim Gray, referring to a letter received late summer from CRA's appeals office. "We will reply by a deadline in early January."The group was caught up in the Conservative government's $13.4-million political-activity audit program targeting 60 charities. That program was launched by the 2012 budget and later expanded. Environmental Defence was in the first wave of charities audited — most of them environmental groups — after several cabinet ministers publicly vilified environmentalists as "terrorists" and "money launderers" for opposing the Conservative government's energy and pipelines policies.

EthicalOil.org, a website in support of the oil patch, also formally complained to CRA about Environmental Defence's anti-pipeline work, saying the group far exceeded the maximum 10 per cent of resources that charities are allowed to spend on political activities.Fast forward to 2016, and Environmental Defence is still vocally opposing oil pipelines, this time the two projects — Kinder Morgan and Line 3 — that were given the green light last week by the Liberal government.Party leader Justin Trudeau campaigned during last year's election to end CRA's political-activity program and rewrite the rules. "We will allow charities to do their work on behalf of Canadians free from political harassment, and will modernize the rules governing the charitable and not-for-profit sectors," the Liberal campaign book said."This will include clarifying the rules governing 'political activity,' with an understanding that charities make an important contribution to public debate and public policy."The new Liberal government in January curtailed the 60-audit program, cancelling the last six that were scheduled. But all audits already underway were allowed to continue, and Environmental Defence is among five charities now under notice they will lose their charitable status unless their appeals are successful.

"It seems odd to allow these things to proceed," said Gray, noting the Liberal government is currently consulting on changes to rules governing activities for charities.

"Why is this continuing? It really should just be put to bed."Another group under threat of losing its charitable registration filed a constitutional challenge of the law in August, saying the curbs on political activity are an unreasonable limit on freedom of expression.

Ottawa-based Canada Without Poverty was told by CRA auditors last year that 98.5 per cent of their work is political.A spokesman for the tax agency, David Walters, declined comment on the status of individual audits, citing the confidentiality provisions of the Income Tax Act.The charitable sector was caught by surprise when the new Liberal government announced it would not halt political-activity audits already underway.

The minister, Diane Lebouthillier, said earlier this year that "the independence of the Charity Directorate's oversight role for charities is a fundamental principle that must be protected. ... I cannot and will not play a role in the selection of charity audits or in the decisions relating to the outcomes of those audits."Lebouthillier launched a formal consultation process this fall to help rewrite charity law, including an online component and in-person sessions in seven major cities. The consultation ends Dec. 14.

Gray says there are some hopeful signs. CRA appeals officials met with Environmental Defence in April and again last month for direct talks. Previously, communications with the agency were in writing only.In the meantime, the group's nine-page submission to the consultations, submitted Nov. 22, calls for a truce:"In light of this consultation and in order for organizations to participate freely in this process, we request that all political activities audits currently underway be suspended until the government's new legislative framework is in place, including a suspension of the CRA's power to revoke an organization's charitable status."In the year ending March 31, Environment Defence reported revenues of $3.1 million, of which they issued receipts for donations worth $584,000. About $150,000 was spent on political activities, or about five per cent of all revenues, according to the filing.

ALBERTA NOSEDIVES ON GLOBAL OIL AND GAS INVESTMENT RANKING

2016 Fraser Institute survey has Alberta 18 spots below its 2015 standing

Alberta has plunged to 43rd place in its attractiveness to global oil and gas investors, a report by the Fraser Institute suggests.The 10th annual Global Petroleum Survey of industry executives looks at various jurisdictions around the globe and a variety of barriers that might impact investment decisions in key oil and gas producing regions.Some of those barriers include high tax rates, costly regulatory obligations, uncertainty over environmental regulations and political stability.The survey places Alberta 43rd overall out of 96 locations for upstream investment, down from 25th in 2015 and a top 15 spot in 2014. Meanwhile, Saskatchewan jumped to 4th, up from 7th spot last year, while British Columbia maintained its 39th spot overall.Alberta earned low marks for regulatory duplication and inconsistencies, high taxation, and uncertain environmental regulations."The Alberta government has introduced policies that are confusing and possibly costly, creating uncertainty for the oil and gas industry, which can invest elsewhere," said Kenneth Green, senior director of the Fraser

Institute's Centre for Natural Resources and co-author of the survey in a news release. "It can't be attributed only to the oil price and opposition to pipelines and things like that because Saskatchewan is doing just fine," says Green. "It's a perceived degradation of the regulatory climate and tax regimes here in Alberta."The survey notes it was completed before the approval of Kinder Morgan's Trans Mountain pipeline and Enbridge's Line 3 replacement last week. Taking those developments and President-elect Donald Trump's support of Keystone XL into account, it says that Alberta's score could improve in future years. Despite Alberta's drop, Canada is still the third most attractive country for oil and gas investment. The survey also points out that of the 12 jurisdictions with the largest petroleum reserves, Texas, United Arab Emirates, Qatar, Alberta, and China, are also the five most likely to attract, or least likely to deter, investment. The report pegs the United States as the most attractive region for investment, followed by Australia, which moved ahead of Canada this year.The survey, which involved 381 managers and executives, was conducted from May 24, 2016, until Aug. 12, 2016.

ALBERTA DRILLING RIGHTS AUCTIONS DELIVER LOWEST PAYOFF IN 39 YEARS

$137M is poorest showing since system began in 1977.Sales of Crown drilling rights in Alberta have fallen to their lowest levels in 39 years.Statistics posted on the Alberta Energy website this week, following the last auction of 2016, show that oil and gas producers paid $137 million this year for the right to drill oil and gas wells on land where the province owns the mineral rights. That's the poorest showing since the province adopted its current auction system back in 1977 and worse than the previous low of $149 million in 1992. The average price paid per hectare in 2016 was $146.Five years ago, in 2011, the province had its most lucrative year ever, racking up $3.5 billion from drilling rights auctions at which bidders paid an average of $860 per hectare while trying to nail down positions in the attractive Montney and Duvernay formations.Oilfield services analyst Aaron MacNeil of AltaCorp Capital Inc. said companies in Alberta haven't been bidding because most have more land in inventory than they can afford to develop given current lower commodity prices.In its budget last spring, the Alberta government estimated it would collect revenue of just $95 million from land sales in the 2016-17 fiscal year ending next March, rising to $157 million the following year.

OIL SURGES TO 1½-YEAR HIGH, FED RATE INCREASE LOOMS

Bonds sell off, U.S. yield tops 2.5 per cent as curve steepens

Oil prices surged to their highest level since mid-2015 and U.S. Treasury yields hit a more than two-year peak on Monday after the world's top crude producers agreed to cut output. Coming at the start of a week when the United States is expected to raise interest rates for only the second time since the global financial crisis, the weekend agreement between the Organization of the Petroleum Exporting Countries and key non-OPEC states set the markets alive.At a weekend meeting, 11 non-OPEC producers agreed to cut 558,000 barrels a day of crude output in the six months beginning Jan. 1. As well, Saudi Arabia's oil minister hinted that it was considering further production cuts, on top of the 486,000 barrels a day to which it has already committed. Brent futures, the main international contract, soared more than five per cent to top $57 US a barrel for the first time since July 2015. In early trading in North America, Brent crude was selling for $56.38 a barrel.West Texas Intermediate, the benchmark North American contract, stood at $53.65 a barrel, up $2 from Friday and just shy of the $54 it reached overnight.

"The original OPEC deal pointed to a fairly lumpy three per cent cut [in production], so this suggests there is a bit more upside for oil prices," said Neil Williams, chief economist at fund manager Hermes. On the rise in bond yields, which tend to set global borrowing costs, he added: "The Fed hike is mostly baked in so when we do get it, it will be more about the statement."Stocks rose in both New York and Toronto, with the TSX index up 55 points to 15,367. European oil companies jumped more than two per cent on the oil surge and helped the pan-regional STOXX50 index add 0.2 per cent, having just had its best week in exactly five years.Bond markets in contrast were under heavy pressure. Euro zone government bond yields opened sharply higher with German bonds up five basis points at 0.40 per cent as U.S. yields topped 2.5 per cent for the first time since October 2014. "We have seen OPEC and non-OPEC producers agreeing, which is boosting reflation expectations around the world," said Chris Weston, an institutional dealer with IG Markets. In another sign of the reflation trade, break-even rates — the gap between yields of five-year U.S. debt and a matching tenor in inflation-protected securities — were at two-month highs.Focus was also on the currency markets as the U.S. dollar rose to its highest since February against the Japanese yen, before what is almost certain to be the first rate hike of the year from the U.S. Federal Reserve on Wednesday. Japan's yen also tends to suffer when oil prices rise, since the country is a major importer. The Norwegian crown and Russia ruble were also big gainers from the oil deal. The ruble rose almost two per cent against both the U.S. dollar and euro.

Overnight in Asia, MSCI's broadest index of Asia-Pacific shares outside Japan dropped 0.5 per cent after posting its biggest weekly rise in nearly three months last week.

China stocks suffered their biggest fall in six months as blue chips were knocked by fresh regulatory curbs to rein in insurers' aggressive stock investments and rising bond yields prompted profit-taking in equities. The blue-chip CSI300 index fell 2.4 per cent, to 3,409.18 points, while the Shanghai Composite Index lost 2.5 per cent to 3,152.97 points. China's insurance regulator, which recently warned it would curb "barbaric" acquisitions by insurers, said late on Friday it had suspended the insurance arm of China's Evergrande Group from conducting stock market investment. Emerging markets are already bracing for a difficult run if U.S. rate hikes push up the dollar and global bond yields.Turkey's lira has borne the brunt of much of the pressure in recent weeks, and it took another one per cent hit alongside Turkish bonds after data showed the country's economy suffering its first contraction since 2009. Gold, meanwhile, which had a bumper first half of 2016, hit its lowest level since early February at $1,152 an ounce.